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SUBJECT: STAR EDITORIAL OF 25 AUGUST 1976 DENOUNCES GOVERNMENT OF
CANADA'S WHITE PAPER ON BANKING FOR ABDICATING RESPONSIBILITY
TO CONTAIN FOREIGN ECONOMIC INFLUENCE IN CANADA

THE FOLLOWING IS THE STAR EDITORIAL OF 25 AUGUST, "NO SURRENDER
TO FOREIGN BANKS":

THE FEDERAL GOVERNMENT'S PLAN TO LEGITIMIZE FOREIGN BANKS
OPERATING IN CANADA UNDER VARIOUS GUISES IS AN ADMISSION OF ITS
FAILURE TO DEAL WITH A SERIOUS THREAT TO CANADA'S ECONOMIC
INDEPENDENCE.

THE PORBLEM, WHICH OTTAWA PROPOSES TO SOLVE THROUGH NEAR-TOTAL
SURRENDER, ARISES FROM A SERIOUS OVERSIGHT IN THE BANK ACT.
WHILE THE LEGISLATION PROHIBITS FOREIGNERS FROM OWNING BANKS HERE,
IT DOES NOT DEFINE THE WORD "BANK". THIS LOOPHOLE HAS PERMITTED
ABOUT 120 FOREIGN-CONTROLLED FINANCIAL INSTITUTIONS TO
SET UP SHOP HERE AND PERFORM NEARLY ALL BANKING
ACTIVITIES - AS WELL AS SOME DENIED TO CANADIAN
CHARTERED BANKS- SIMPLY BY NOT CALLING THEMSELVES BANKS.
IN ITS WHITE PAPER ON REVISIONS TO THE BANK ACT, THE
GOVERNMENT PROPOSES TO LEGALIZE THESE OPERATIONS, TRY TO LIMIT
THEIR ABILITY TO GROW, AND SUBJECT THEM TO THE REGULATION OF
THE BANK OF CANADA. THE WHITE PAPER POINTS OUT THAT FOREIGN BANKS
ENJOY A "SPECIAL ADVANTAGE" IN THAT THEY CAN SIPHON OFF
BUSINESS FROM OTHER SUBSIDIARY INDUSTRIES IN CANADA WHOSE

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PARENT FIRM DOES BUSINESS WITH THE BANKS' PARENT ABROAD. BUT IT

PROPOSES NO SOLUTION TO THIS PROBLEM EXCEPT TO TRY TO IMPOSE SOME OVER-ALL LIMITS TO THE FOREIGN BANKS' GROWTH. INSTEAD OF TURNING BACK THE INVASION, THE GOVERNMENT IS GIVING UP THE FIGHT. WHILE MOST CANADIANS WANT OTTAWA TO REDUCE FOREIGN CONTROL OVER CANADIAN BUSINESS AND INDUSTRY, INSTEAD IT IS LETTING DOWN THE BARRIERS IN ONE KEY INDUSTRY WHERE AT PRESENT CANADIANS ARE IN ALMOST COMPLETE CONTROL. THE PROPOSAL RUNS COUNTER TO A LONG-HELD FEDERAL POLICY AIMED AT KEEPING THE BANKING INDUSTRY FIRMLY UNDER CANADIAN CONTROL. THIS POLICY HAD ITS MOST SIGNIFICANT EXPRESSION WHEN OTTAWA FIRST MOVED TO CANADIANIZE THE FOREIGN-CONTROLLED MERCANTILE BANK OF CANADA MORE THAN A DECADE AGO. THE REASON FOR THAT POLICY IS THAT BANKS LIE AT THE VERY CORE OF THE CANADIAN ECONOMY. THEIR RESPONSIVENESS TO THE MONETARY POLICIES AND MORAL SUASION OF THE BANK OF CANADA, CONCERNING SUCH THINGS AS INTEREST RATES AND THE LEVELS OF LENDING ACTIVITY, IS CRITICAL TO ECONOMIC PLANNING. TO THE EXTENT THAT A SIGNIFICANT PORTION OF CANADIAN BANKING ACTIVITIES WILL NOW BE INFLUENCED BY CORPORATE POLICIES DICTATED BY BOARDROOMS IN NEW YORK OR TOKYO OR ZURICH, CANADA'S ABILITY TO CONTROL ITS OWN ECONOMIC DESTINY WILL BE JEOPARDIZED. THE GOVERNMENT APPEARS TO HAVE TWO REASONS FOR CAPITULATING. ONE IS THAT IT WANTS TO ENCOURAGE MORE COMPETITION IN CANADIAN BANKING. BUT THAT CAN BE ACCOMPLISHED WITHIN CANADA, BY CANADIANS. IN FACT MUCH OF THE REST OF THE WHITE PAPER'S THURST IS TOWARD THAT GOAL. IT WOULD ALLOW TRUST COMPANIES AND OTHER FINANCIAL INSTITUTIONS INTO SOME FIELDS NOW PRESERVED FOR BANKS AND MAKE IT EASIER FOR CANADIANS TO SET UP NEW BANKS. THE SECOND MAJOR REASON IS THAT CANADIAN BANKS DO ABOUT 30 PER CENT OF THEIR BUSINESS ABROAD. THROUGH 317 BRANCHES, AGENCIES OR SUBSIDIARIES. THE FEAR IS THAT THESE PROFITABLE CANADIAN FOREIGN OPERATIONS WOULD BE THREATENED IF CANADA MOVED TO PROHIBIT FOREIGN BANKS FROM ESTABLISHING HERE. BUT THAT CANADIAN BUSINESS WAS BUILT UP EVEN WHILE SUCH A PROHIBITION EXISTED IN CANADA, AND MOST FOREIGN JURISDICTIONS RESTRICT BANKING ACTIVITIES TO DOMESTIC BANKS. IN ANY EVENT, CAN ANY CONCERNED CANADIAN REALLY ARGUE FOR THE DEFENCE OF CANADIAN BANK PROFITS ABROAD AT THE RISK OF GIVING

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AWAY CANADIAN ECONOMIC SOVEREIGNTY? THIS COUNTRY IS HAVING A HARD ENOUGH TIME REGAINING CONTROL OF KEY INDUSTRIES-AND THUS ITS OWN ECONOMIC DESTINY-FOLLOWING YEARS OF SELLING OUT TO FOREIGN INTERESTS. OTTAWA SHOULD BE SEEKING WAYS TO REVERSE THIS SITUATION RATHER THAN CONVENIENTLY OPENING YET ANOTHER FLOODGATE. DIGGINS

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